

**7. RELATED-PARTY TRANSACTIONS/ CONFLICT OF INTEREST****7.1 EXISTING AND PROPOSED RELATED-PARTY TRANSACTIONS AND CONFLICT OF INTEREST**

Save as disclosed below, there are no current, subsisting and/or proposed related party transactions or arrangements between the K-One Group and its Promoters, substantial shareholders, Directors and key management and/or persons connected with any of the aforementioned persons within the 12 months preceding the date of this Prospectus.

Related party	Nature of transaction	Interested promoter/ director/ substantial shareholder/ key management
K-One Products Sdn Bhd ("K-One Products")	<ul style="list-style-type: none"> <li>Payment of RM23,066 and RM3,830 to K-One Ind by K-One Products for purchases of goods for the financial year ended 2004 and financial period ended 30 June 2005 respectively.</li> <li>Payment of RM26,142 to K-One Products by K-One Ind as consideration for provision of marketing services for the financial period ended 30 June 2005.</li> </ul>	Ir. Lim Beng Fook, Edwin Lim Soon Seng, Martin

The interests of the Promoters, substantial shareholders and Directors of K-One Tech in the aforesaid transactions as at 7 November 2005 are as follows:-

Interested promoter/ director/ substantial shareholder	Nature of interest
Ir. Lim Beng Fook, Edwin	Director and substantial shareholder of K-One Products.
Lim Soon Seng, Martin	Director and substantial shareholder of K-One Products.

**7.2 TRANSACTIONS WHICH ARE UNUSUAL IN THEIR NATURE OR CONDITIONS**

There are no transactions which are unusual in their nature or conditions, involving goods, services, tangible or intangible assets, to which the Group was a party in respect of the past one (1) financial year ended 31 December 2004 until 7 November (being the latest practicable date prior to the printing of this Prospectus).

**7.3 OUTSTANDING LOANS MADE BY CORPORATION OR ANY OF ITS PARENT OR SUBSIDIARIES TO/FOR THE BENEFIT OF RELATED PARTIES**

The Group does not have any outstanding loans as at 7 November 2005 (being the latest practicable date prior to the printing of this Prospectus) which have been made to a shareholder and/or director or their related companies.

**7. RELATED-PARTY TRANSACTIONS/ CONFLICT OF INTEREST (Cont'd)****7.4 INTEREST IN SIMILAR BUSINESS**

None of the Directors or substantial shareholders and/or key management of K-One Tech is interested, directly or indirectly in any business carrying on a similar trade as the Company and its subsidiary companies, other than as a non-substantial shareholder of a public company whose shares are listed on a recognised stock exchange.

The existing Directors and substantial shareholders of K-One Tech, i.e. Ir. Lim Beng Fook, Edwin, Lim Soon Seng, Martin and Bjorn Braten, have given their respective written undertakings not to carry on any new business that will directly compete with the current principal businesses of the Group. The aforesaid undertakings are effective so long as they remain as existing Directors and/or substantial shareholders of K-One Tech.

**7.5 PROMOTIONS OF ANY MATERIAL ASSETS ACQUIRED/TO BE ACQUIRED WITHIN TWO (2) YEARS PRECEDING THE DATE OF THIS PROSPECTUS**

Save as disclosed below, none of the other Directors and substantial shareholders has any interest, direct or indirect, in the promotion of or in any material assets acquired or proposed to be acquired or disposed or proposed to be disposed of or leased or proposed to be leased to the Company or any of its subsidiary and associated companies within the two (2) years preceding the date of this Prospectus.

- (a) Share Sale Agreement between Bjorn Braten, Ir. Lim Beng Fook and Lim Soon Seng ("Vendors") and EMB Tech ("Purchaser") dated 1 December 2003 wherein the Vendors have agreed to sell and the Purchaser has agreed to acquire 500,000 ordinary shares of RM1.00 each in K-One Ind representing the entire issued and paid-up share capital of K-One Ind for a purchase consideration of RM500,000. The shares were transferred to the Purchaser on 28 March 2005.
- (b) Subscription Agreement between Chan Bee Kean and Chong Fei Seong ("Shareholders"), EMB Tech and K-One Tech ("Subscriber") dated 1 December 2003 whereby the Subscriber has agreed to subscribe for 499,998 ordinary shares of RM1.00 each in EMB Tech for a consideration of RM499,998. The shares were issued and allotted to the Subscriber on 27 May 2005.
- (c) Share Sale Agreement between Chan Bee Kean and Chong Fei Seong ("Vendors") and K-One Tech ("Purchaser") dated 1 December 2003 wherein the Vendors have agreed to sell and the Purchaser has agreed to acquire the remaining 2 ordinary shares of RM1.00 each in EMB Tech for a purchase consideration of RM2.00. The shares were transferred to the Purchaser on 27 May 2005.

**7.6 CONTRACTS OR ARRANGEMENTS IN WHICH THE DIRECTORS OR SUBSTANTIAL SHAREHOLDERS IS INTERESTED AND SIGNIFICANT IN RELATION TO THE BUSINESS OF THE GROUP**

Save as disclosed in 7.1, none of the other Directors and/or substantial shareholders of K-One Tech has interest in any contract or arrangement, which is significant in relation to the business of the Group.

**7. RELATED-PARTY TRANSACTIONS/ CONFLICT OF INTEREST (Cont'd)**

**7.7 RECURRENT RELATED PARTY TRANSACTION OF A REVENUE OR TRADING NATURE**

Pursuant to Paragraph 6.8 of the Listing Requirements, a listed issuer may seek the shareholders' mandate in respect of related party transactions involving recurrent transactions of revenue or trading in nature subject to the following: -

- (a) the transactions are in the ordinary course of business and are on terms not more favourable to the related party than those generally available to the public;
- (b) the shareholders' mandate is subject to annual renewal and disclosure is made in the annual report of the aggregate value of transactions conducted pursuant to the shareholders' mandate during the financial year; and
- (c) in a meeting to obtain shareholders' mandate, the interested director, interested major shareholder or interested person connected with a director or major shareholder; and where it involves the interest of an interested person connected with a director or major shareholder, such director or major shareholder, must not vote on the resolution approving the transactions. An interested director or interested major shareholder must ensure that persons connected with him abstain from voting on the resolution approving the transactions.

The Company would, in the ordinary course of its business, enter into transactions, including but not limited to the transactions described in Related Party Transactions set out in Section 7.1 of this Prospectus, with persons which are considered "related party" as defined in Chapter 6 of the Listing Requirements. It is likely that such transactions will occur with some degree of frequency and could arise at any time and from time to time.

Under Chapter 6 of the Listing Requirements, a listed company may seek a shareholders' mandate for recurrent transactions of a revenue or trading nature or those necessary for its day to day operations such as supplies and materials, which may be carried out with the listed company's interested persons, but not for the purchase or sale of assets, undertakings or businesses.

Due to the time-sensitive nature of commercial transactions, the shareholders mandate will enable the Company, in its normal course of business, to enter into the categories of Related Party Transactions, provided such interested person transactions are made at arm's length and on normal commercial terms.

Transactions, which do not fall within the ambit of the shareholders' mandate, shall be subject to the relevant provisions of the Listing Requirements.

**7.8 DECLARATION BY THE ADVISERS**

AmMerchant Bank hereby confirms that there is no existing or potential conflicts of interest in its capacity as Adviser, Sponsor, Managing Underwriter and Placement Agent to the Group for the Public Issue.

Messrs Azman Davidson & Co. hereby confirms that there is no conflict of interest in its capacity as Solicitors for the Public Issue.

Messrs T H Law & Co. hereby confirms that there is no conflict of interest in its capacity as Auditors and Reporting Accountants to the Group for the Public Issue.

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**8. OTHER INFORMATION CONCERNING THE GROUP**

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**8.1 INFORMATION ON LAND AND BUILDINGS**

As at 7 November 2005 (being the latest practicable date prior to the printing of this Prospectus), the Group does not own any property or buildings. The Group's major fixed assets are computer software and hardware, machineries and equipment.

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## 9. FINANCIAL INFORMATION

### 9.1 HISTORICAL FINANCIAL INFORMATION

The following table sets out a summary of the proforma consolidated income statements of the Group throughout the period under review for the financial period/years ended 31 December 2001 to 2004 and 6 months period ended 30 June 2005 which are prepared based on the assumption that the Group has been in existence throughout the period under review. The proforma consolidated results are prepared for illustrative purposes only and should be read in conjunction with the accompanying notes and assumptions included in the Accountants' Report set out in Section 10 of this Prospectus.

	Period from 20.2.2001 to 31.12.2001 (RM'000)	Financial year ended 31 December 2002 (RM'000)	2003 (RM'000)	2004 (RM'000)	**Period from 1.1.2005 to 30.6.2005 (RM'000)
Revenue	4,609	16,126	<sup>®</sup> 15,093	15,343	20,924
EBIDTA before R&D	367	514	<sup>®</sup> 1,239	1,352	1,322
R&D expenses	-	-	-	-	(30)
EBIDTA	367	514	<sup>®</sup> 1,239	1,352	1,292
Depreciation	(92)	(139)	(157)	(214)	(129)
Interest expense	(2)	(11)	(8)	(22)	(20)
Amortisation	-	-	-	-	-
Exceptional items	-	-	-	-	-
Share of profits of associated companies	-	-	-	-	-
PBT	273	364	<sup>®</sup> 1,074	1,116	1,143
Taxation	(97)	(151)	37	(41)	-
PAT	176	213	<sup>®</sup> 1,111	1,075	1,143
Extraordinary items	-	-	-	-	-
MI	-	-	-	-	-
PAT after MI	176	213	<sup>®</sup> 1,111	1,075	1,143
No. of ordinary shares assumed in issue ( '000 ) *	28,350	28,350	28,350	28,350	28,350
Gross EPS (sen) <sup>(note 4)</sup>	#1.28	1.28	<sup>®</sup> 3.79	3.94	^8.06
Net EPS (sen) <sup>(note 5)</sup>	#0.83	0.75	<sup>®</sup> 3.92	3.79	^8.06

\* Based on the number of share in issue before taking into account the shares issued pursuant to Public Issue.

# Annualised - based on 9 months operations

^ Annualised - based on 6 months operations.

@ Audited balance after incorporating prior year adjustment.

\*\* The financial information for the 6-month period ended 30.6.2005 as disclosed above is prepared on proforma basis as the K-One Group was formalised on 27.5.2005. In view thereof and for illustrative purposes, the actual audited consolidated results of the K-One Group for the period from 27.5.2005 to 30.6.2005 was not presented.

#### Notes: -

- The proforma consolidated income statements for the relevant financial period have been prepared based on applicable approved accounting standards in Malaysia and accounting policies consistent with those adopted in the preparation of the audited financial statements of K-One Group.
- There were no extraordinary or exceptional items during the relevant financial periods/year under review.
- The results for financial year 2003 have been restated to take into account of the prior year adjustment.
- The proforma gross EPS is computed by dividing the profit before taxation by the number of ordinary shares in K-One Tech in issue during the financial periods/ years under review.
- The proforma net EPS is computed by dividing the profit after taxation by the number of ordinary shares in K-One Tech in issue during the financial periods/ years under review.
- All significant intra-groups transactions are eliminated on consolidation and the consolidated results reflect external transactions only.

The analysis on historical information of the Group is set out in Section 9.2.

**9. FINANCIAL INFORMATION (Cont'd)**

The financial statements of the K-One Group for the past four (4) financial period/years and 6 months period ended 30 June 2005 under review were reported on without any qualification.

**9.2 ANALYSIS OF HISTORICAL FINANCIAL INFORMATION**

The table below sets out key financial ratios which are provided for illustrative purposes based on the audited financial statements of K-One Tech and its subsidiary companies, prepared on the assumption that the structure of the Group had been in existence throughout the period under review:-

	← Proforma →				^^Period from 1.1.2005 to 30.6.2005 RM'000
	Period from 20.2.2001 to 31.12.2001 RM'000	<--Year Ended 31 December-->			
		2002 RM'000	2003 RM'000	2004 RM'000	
Pre-tax profit margin (%)	5.9	2.3	7.1	7.3	5.5
Effective tax rate (%)	35.5	41.5	(3.4)	3.7	-
Total bank borrowings	131	110	83	1,333	1,100
Interest expense	2	11	8	22	20
Interest cover (times)	137.5	34.1	135.2	51.7	58.2

^^ The financial information for the 6-month period ended 30.6.2005 as disclosed above is prepared on proforma basis as the K-One Group was formalised on 27.5.2005. In view thereof and for illustrative purposes, the actual audited consolidated results of the K-One Group for the period from 27.5.2005 to 30.6.2005 was not presented.

**9.2.1 Segmental Analysis of Revenue and Operating Profit****Analysis of Revenue by Corporations:**

Financial Year Ended 31 December					^^Period from 01.01.2005 to 30.06.2005 (RM'000)
	2001 (RM'000)	2002 (RM'000)	2003 (RM'000)	2004 (RM'000)	
K-One Tech*	4,609	16,126	4,943	3,268	2,204
EMB Tech**	-	-	-	-	-
K-One Ind***	-	1,753	@10,850	12,075	18,720
	4,609	17,879	15,793	15,343	20,924
Consolidated adjustments	-	(1,753)	(700)	-	-
<b>Total</b>	<b>4,609</b>	<b>16,126</b>	<b>@15,093</b>	<b>15,343</b>	<b>20,924</b>

**Notes:**

\* The audited result of K-One Tech for 2001 was for a period of 9 months ended 31 December 2001.

\*\* The audited result of EMB Tech for 2004 was for a period of 13 months ended 31 December 2004.

\*\*\* The audited result of K-One Ind for 2002 was for a period of 4 months ended 31 December 2002.

@ Audited balance after incorporating prior year adjustment.

^^ The financial information for the 6-month period ended 30.6.2005 as disclosed above is prepared on proforma basis as the K-One Group was formalised on 27.5.2005. In view thereof and for illustrative purposes, the actual audited consolidated results of the K-One Group for the period from 27.5.2005 to 30.6.2005 was not presented.

## 9. FINANCIAL INFORMATION (Cont'd)

## Analysis of Revenue by Markets / Geographical Location:

	Period from 20.2.2001 to 31.12.2001	Financial Year Ended 31 December			^^Period from 1.1.05 to 30.6.2005
	(RM'000)	2002 (RM'000)	2003 (RM'000)	2004 (RM'000)	(RM'000)
Export	4,609	16,126	15,093	15,343	20,796
Domestic	-	-	-	-	128
Total	4,609	16,126	15,093	15,343	20,924

^^ The financial information for the 6-month period ended 30.6.2005 as disclosed above is prepared on proforma basis as the K-One Group was formalised on 27.5.2005. In view thereof and for illustrative purposes, the actual audited consolidated results of the K-One Group for the period from 27.5.2005 to 30.6.2005 was not presented.

## Analysis of PBT by Corporations:

Financial Year Ended 31 December	2001 (RM'000)	2002 (RM'000)	2003 (RM'000)	2004 (RM'000)	^^Period from 1.1.2005 to 30.6.2005 (RM'000)
K-One Tech*	275	350	@762	28	405
EMB Tech**	-	-	-	(5)	(3)
K-One Ind***	-	11	@312	1,093	741
	275	361	1,074	1,116	1,143
Consolidated adjustments	(2)	3	-	-	-
Total	273	364	@1,074	1,116	1,143

## Notes:

\* The audited result of K-One Tech for 2001 was for a period of 9 months ended 31 December 2001.

\*\* The audited result of EMB Tech for 2004 was for a period of 13 months ended 31 December 2004.

\*\*\* The audited result of K-One Ind for 2002 was for a period of 4 months ended 31 December 2002.

@ Audited balance after incorporating prior year adjustment.

^^ The financial information for the 6-month period ended 30.6.2005 as disclosed above is prepared on proforma basis as the K-One Group was formalised on 27.5.2005. In view thereof and for illustrative purposes, the actual audited consolidated results of the K-One Group for the period from 27.5.2005 to 30.6.2005 was not presented.

## Analysis of PBT by Markets / Geographical Location:

	Period from 20.2.2001 to 31.12.2001	Financial Year Ended 31 December			Period from 1.1.2005 to 30.6.2005
	(RM'000)	2002 (RM'000)	2003 (RM'000)	2004 (RM'000)	(RM'000)
Export	273	364	1,074	1,116	1,103
Domestic	-	-	-	-	40
Total	273	364	1,074	1,116	1,143

Impact of foreign exchange / interest rate on operating profits

The Group's exposure to foreign exchange risk is limited to USD and Euro. The Group has back to back order and pricing arrangements with some of its suppliers, thus mitigating its exposure to currency fluctuations risk. In addition, the management of K-One Tech will constantly monitor the Group's RM exposure and take the necessary steps to minimise fluctuations in the exchange rate which includes hedging.

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**9. FINANCIAL INFORMATION (Cont'd)**

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The Group manages its interest rate exposure by maintaining a prudent mix of fixed and floating rate borrowings. The Group actively reviews its borrowings, taking into account the investment holding period and nature of its assets. This strategy allows it to capitalise on cheaper funding in a low interest rate environment whilst achieving a certain level of protection against rate hikes.

**9.2.2 Analysis and Commentary on Financial Information****2001**

Revenue for the Group for the financial period 2001 which consists of nine months operations amounted to RM4.6 million with RM3.0 million attributed to D&D and the balance to manufacturing of electronics end products and sub-systems. The entire Group's revenue is derived from the overseas markets, particularly, Europe.

**2002**

The Group's revenue increased by 250% from RM4.6 million for the financial period 2001 to RM16.1 million for the financial year 2002. The increase is attributed to three major reasons:-

- (a) Commencement and continuation of manufacturing activities for products designed in 2001.
- (b) Signing up and streaming of new customers in 2002.
- (c) Commencement of new projects from existing customers.

**2003**

The Group's revenue for financial year 2003 amounted to RM15.1 million. This represents a decrease compared to RM16.1 million for the financial year 2002. The decrease in the Group's revenue is due to the decrease in manufacturing revenue from RM14.0 million for the financial year 2002 to RM10.9 million for the financial year 2003. However, revenue derived from D&D increased from RM2.2 million for the financial year 2002 to RM4.3 million for the financial year 2003.

The above decrease in manufacturing revenue is caused by the adverse effects of the Iraq war and SARS which happened in the first half of year 2003. These unforeseen circumstances depressed revenue growth with customers cutting back on existing production and delaying production line audits for new product launches in anticipation of reduced demand and a weak economy. To mitigate slowing manufacturing demand, the Group managed to innovate and re-design several products for existing and new customers in the same year, hence contributing to the increase in D&D revenue.

**2004**

For financial year 2004, the Group's revenue increased to RM 15.3 million from RM 15.1 million in 2003. The Group's revenue increase was curtailed by its lack of financial capability to purchase/upgrade certain development and testing equipment including Bluetooth equipment which resulted in the Group failing to secure Bluetooth projects from major customers as D&D activities for such projects required Bluetooth development and test equipment.



**9. FINANCIAL INFORMATION (Cont'd)**

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**2005**

For the 6 months period ended 30 June 2005, the Group posted revenue of RM20.9 million. This itself is 36.6% more than the revenue for financial year 2004 of RM15.3 million. The revenue surge is attributed to the realisation of manufacturing activities in 2005 for certain development projects or products which were delayed in 2004 and the securing of new projects from new customers.

***PBT*****2001**

PBT margin stood at 5.9% as at 31 December 2001 which consists of nine months of operations. Being the first year of operations, much of the revenue is derived from D&D activities.

**2002**

PBT margin recorded a decrease from 5.9% in financial period 2001 to 2.3% in financial year 2002. The decrease in PBT margin is attributed to two major reasons:-

- (i) Higher percentage of manufacturing activities which constitute a lower gross profit margin as compared to D&D activities, hence pulling down the overall gross profit margin.
- (ii) Operating expenses and finance costs are much higher as a result of hiring more technical staff, investment in ICT tools to enhance productivity and aid designing activities and last but not least more intense travelling overseas to secure projects.

**2003**

For the financial year 2003, the Group's PBT margin stood at 7.1 % as compared to 2.3% in financial year 2002.

Improvement in gross profit margin can be attributed to the following 3 reasons:-

- (i) Effective cost cutting activities through negotiation with long term suppliers of major components.
- (ii) Improvement in efficiency and turnaround time.
- (iii) Overall improvement in margin for new businesses.

**2004**

For the financial year 2004, the Group's PBT margin stood at 7.3%, improving from 7.1 % registered in financial year 2003. Efforts from previous year's cost cutting measures continued to pay-off which resulted in higher gross profit margin derived from its manufacturing activities. Meanwhile, D&D gross profit margin marginally increased in 2004.

**9. FINANCIAL INFORMATION (Cont'd)****2005**

The Group's PBT margin decreased to 5.5% as compared to 7.3% for financial year 2004. The decrease in PBT margin is mainly attributed to the lower profit margin generated from the new projects.

***Taxation***

The effective tax rate for financial period 2001 and financial year 2002 are 35.5% and 41.5% respectively as compared to the statutory rate of 28%. This is because certain expenses such as the depreciation of motor vehicle and renovation, entertainment and staff bonus that is in excess of two months do not qualify for tax deduction purpose.

In the financial year 2003, the Group's effective tax rate is (3.4%) as a result of exemption from corporate tax for K-One Tech which was accorded MSC Status on 11 September 2002 which confers tax exemption for an initial period of five years with the possibility of an extension for a further period of five years, subject to application to the relevant authorities and compliance with conditions of the MSC status. The corporate tax for K-one Ind is also exempted as a result of Pioneer status granted by MITI on 31 October 2003.

The effective tax rate for financial year 2003 is negative due to the reversal of the deferred tax (which was recognized in previous year) as the Group does not foresee any realisation of taxable temporary differences since the Group is exempted from tax upon granted MSC Status and Pioneer Status.

The effective tax rate for financial year 2004 of 3.7% is lower than the statutory tax rate as the Group is still under the tax exemption period, which is granted by MSC Status and Pioneer Status respectively. The tax expenses incurred during the year is in respect of under provision of taxation for the financial year 2003 due to the pre-Pioneer Status income generated by the Group.

No provision for taxation was required for the financial period 2005 as the Group is still within the tax exemption period granted by MITI.

**9.3 DIRECTORS' DECLARATION ON FINANCIAL PERFORMANCE, POSITION AND OPERATIONS**

Save as disclosed in Section 9 of this Prospectus, the Directors are of the view that the financial performance, position and operations of the Group are not affected by any of the following: -

- (i) Any known trends, demands, commitments, events or uncertainties that have had, or that the corporation reasonably expects to have, a material favourable or unfavourable impact on financial performance, position and operations of the corporation/group;
- (ii) Any material capital expenditure commitments, the purpose of such commitments and the anticipated source of funds;
- (iii) Any unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of the corporation/group; and the extent to which the financial performance, position and operations of the corporation/group was so affected;

**9. FINANCIAL INFORMATION (Cont'd)**

- (iv) Where there has been a substantial increase in revenue, state the extent to which such increase is attributable to prices, volume of goods/services being sold, the introduction of new products/services or any other factors; and
- (v) Any known events, circumstances, trends, uncertainties and commitments that are reasonably likely to make the historical financial statements not indicative of future financial performance and position.

**9.4 WORKING CAPITAL, BORROWINGS, CONTINGENT LIABILITIES, MATERIAL COMMITMENT MATERIAL LITIGATION AND TRADE RECEIVABLES****(i) Working Capital**

The Directors of K-One Tech are of the opinion that, after taking into account the cashflow position, the banking facilities available and the net proceeds from the Public Issue, the Group will have adequate working capital for a period not less than twelve (12) months from the date of issue of this Prospectus.

**(ii) Borrowings**

As at 7 November 2005 (being the latest practicable date prior to the printing of this Prospectus), the Group's total bank borrowings amounted to approximately RM1.2 million from a financial institution are as follows:-

Bank borrowings	RM'000	Type
Long term	1,045	Interest bearing
Short term	141	Interest bearing
<b>Total</b>	<b>1,186</b>	

The Group has not defaulted in any of its payment of either interest and/or principal sums in respect of any borrowings through out the past one (1) financial year and the financial period thereof immediately preceding the date of this Prospectus.

**(iii) Contingent Liabilities**

As at 7 November 2005 (being the latest practicable date prior to the printing of this Prospectus), the Group has not provided any unusual or undertaken any unusual warranties other than those that are customary in the trade.

**(iv) Material Commitment**

As at 7 November 2005 (being the latest practicable date prior to the printing of Prospectus) the Group does not have any material commitments.

**9. FINANCIAL INFORMATION (Cont'd)****(v) Material Litigation**

As at 7 November 2005, (being the latest practicable date to the printing of the Prospectus), neither the Company nor its subsidiary companies are engaged in any material litigation and arbitration, either as plaintiff or defendant, which has a material effect on the financial position of K-One Tech or its subsidiary corporations and the Directors do not know of any proceedings pending or threatened or of any facts likely to give rise to any proceedings which might materially and adversely affect the position or business of K-One Tech or its subsidiary corporations.

**(vi) Trade Receivables**

An ageing analysis of the trade receivables of the Group (excluding inter-company trade receivables) as at 30 June 2005 is set out below:-

As at 30 June 2005	Ageing Analysis							Total RM'000
	← Within credit period →			← Exceeding credit period →				
	0 - 30 days	31 - 60 days	61 - 90 days	91 - 120 days	121 - 150 days	151 - 180 days	> 180 days	
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Group trade receivables	5,593	539	253	-	34	-	727	7,146
Less: Allowance for doubtful debts	-	-	-	-	-	-	(727)	(727)
Net trade receivables	5,593	539	253	-	34	-	-	6,419
Percentage of gross trade receivables (%)	87.1	8.4	4.0	-	0.5	-	-	100.0

As at 30 June 2005, trade receivables (excluding inter-company trade receivables within the Group) exceeding the Group's normal credit period amounted to approximately RM761,000 of which RM727,000 was fully provided in the financial period as at 30 June 2005.

T H Law & Co, the Reporting Accountants, is of the view that trade receivables of approximately RM34,000 which exceeded credit period was not provided for as the said amount was collected in full on 21 July 2005.

In mitigating collection risk in general, the Group has undertaken further credit risk management measures. These measures include stringent credit control policies to be adhered to at all times, a diligent assessment of the credit worthiness of the Group's new customers and imposition of continuous credit checks on the Group's customers prior to accepting new orders.

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## 9. FINANCIAL INFORMATION (Cont'd)

9.5 PROFORMA CONSOLIDATED BALANCE SHEETS OF THE K-ONE GROUP AS AT 30 JUNE 2005  
(Prepared for inclusion in the Prospectus)

PROFORMA CONSOLIDATED BALANCE SHEETS OF K-ONE GROUP AS AT 30 JUNE 2005, TOGETHER WITH THE BASES AND ASSUMPTIONS AND THE AUDITORS' LETTER THEREON

K-ONE TECHNOLOGY BERHAD  
Proforma Consolidated Balance Sheets  
As at 30 June 2005

	Group			
	Audited as at 30 June 2005 RM '000	Proforma I RM '000	Proforma II RM '000	Proforma III RM '000
Property, plant and equipment	734	734	4,684	4,684
Current assets				
Inventories	3,375	3,375	3,375	3,375
Trade receivables	6,419	6,419	6,419	6,419
Other receivables	396	396	396	396
Tax in credit	17	17	17	17
Cash at bank	2,007	2,007	3,944	6,779
	<u>12,214</u>	<u>12,214</u>	<u>14,151</u>	<u>16,986</u>
Current liabilities				
Trade payables	5,185	5,185	5,185	5,185
Other payables	320	320	320	320
Amount due to a Director	973	973	973	973
Borrowing	945	945	945	945
	<u>7,423</u>	<u>7,423</u>	<u>7,423</u>	<u>7,423</u>
Net current assets	<u>4,791</u>	<u>4,791</u>	<u>6,728</u>	<u>9,563</u>
	<u>5,525</u>	<u>5,525</u>	<u>11,412</u>	<u>14,247</u>

## 9. FINANCIAL INFORMATION (Cont'd)

PROFORMA CONSOLIDATED BALANCE SHEETS OF K-ONE GROUP AS AT 30 JUNE 2005, TOGETHER WITH THE BASES AND ASSUMPTIONS AND THE AUDITORS' LETTER THEREON (CONT'D)

K-ONE TECHNOLOGY BERHAD  
Proforma Consolidated Balance Sheets  
As at 30 June 2005

	← Audited as at 30 June 2005 RM '000	Group →		
		Proforma I RM '000	Proforma II RM '000	Proforma III RM '000
Financed by:-				
Share capital	2,250	2,835	3,780	4,158
Share premium	-	-	4,942	7,399
	<u>2,250</u>	<u>2,835</u>	<u>8,722</u>	<u>11,557</u>
Unappropriated profit	996	411	411	411
	<u>3,246</u>	<u>3,246</u>	<u>9,133</u>	<u>11,968</u>
Negative goodwill on consolidation	2,124	2,124	2,124	2,124
Long term liabilities				
Borrowing	155	155	155	155
Deferred tax liability	-	-	-	-
	<u>5,525</u>	<u>5,525</u>	<u>11,412</u>	<u>14,247</u>
NTA per share (sen)	24	19	30	34

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**9. FINANCIAL INFORMATION (Cont'd)**

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PROFORMA CONSOLIDATED BALANCE SHEETS OF K-ONE GROUP AS AT 30 JUNE 2005, TOGETHER WITH THE BASES AND ASSUMPTIONS AND THE AUDITORS' LETTER THEREON (CONT'D).

Notes to the Proforma Balance Sheets

1. Basis of preparation

- (a) The proforma consolidated balance sheets have been prepared based on the audited financial statements of K-One Tech and its subsidiary companies as at 30 June 2005.
- (b) The proforma consolidated balance sheets have been prepared under the acquisition method of consolidation. All significant intra-group balances are eliminated on consolidation and the consolidated results reflect external balances only.
- (c) The proforma consolidated balance sheets have been prepared in compliance with applicable approved accounting standards in Malaysia, and are based on accounting principles and basis that are consistent with those previously adopted in the preparation of the audited financial statements and on the assumptions that the following transactions have been effected on 30 June 2005.

**Proforma I**

- After incorporating the effect of bonus issue II.

**9. FINANCIAL INFORMATION (Cont'd)**

PROFORMA CONSOLIDATED BALANCE SHEETS OF K-ONE GROUP AS AT 30 JUNE 2005, TOGETHER WITH THE BASES AND ASSUMPTIONS AND THE AUDITORS' LETTER THEREON (CONT'D).

## 1. Basis of preparation (Cont'd)

**Proforma II**

- After incorporating the effects of Proforma I and Public Issue in K-One Tech at an issue price of RM 0.75 per share.
- Share issue expenses paid out of the proceeds of the Public Issue amounted to RM 1,200,000 to be offset against the share premium account.
- The gross proceeds amounting to RM 8.369 million which comprises proceeds arising from the Rights Issues of RM 1.282 million which has been implemented on 24 May 2005 and Public Issues of RM 7.087 million is expected to be utilised as follows:-

<b>Utilisation</b>	<b>RM '000</b>
Upgrading of Design and Development Centre	1,500
Establishment of global sales offices	900
Expansion plans for manufacturing facilities	1,550
Working capital	3,219
Estimated share issue expenses	1,200
	<u>8,369</u>

**Proforma III**

- After incorporating the effects of Proforma II and assumes that the ESOS of 3,780,000 new Shares in K-One Tech is fully exercised at an exercise price equivalent to the Issue Price of RM 0.75 per share. ("ESOS")



**9. FINANCIAL INFORMATION (Cont'd)**

PROFORMA CONSOLIDATED BALANCE SHEETS OF K-ONE GROUP AS AT 30 JUNE 2005, TOGETHER WITH THE BASES AND ASSUMPTIONS AND THE AUDITORS' LETTER THEREON (CONT'D).

2. Net tangible assets ("NTA") per share

NTA per share is calculated based on the net tangible assets (after excluding negative goodwill and intangible assets), divided by the number of ordinary shares in issue:-

	Existing shares	Share after Bonus Issue II	Shares after Bonus Issue II and Public Issue	Shares after Bonus Issue II, Public Issue and ESOS Exercise
No. of ordinary shares of RM0.10 each	22,500,000	28,350,000	37,800,000	41,580,000

3. Share Capital and Reserves

The movements of the issued and paid-up share capital and reserves of the Group are as follows:-

	Share Capital RM '000	Unappropriated Profit RM '000	Share Premium RM '000	Total RM '000
As at 30 June 2005	2,250	996	-	3,246
Bonus Issue II	585	(585)	-	-
Proforma I	2,835	411	-	3,246
Public Issue	945	-	6,142	7,087
Less: Estimated share issue expenses	-	-	(1,200)	(1,200)
Proforma II	3,780	411	4,942	9,133
ESOS	378	-	2,457	2,835
Proforma III	4,158	411	7,399	11,968

**9. FINANCIAL INFORMATION (Cont'd)****9.6 MOVEMENTS IN THE SHARE CAPITAL AND SHARE PREMIUM**

The movements in the share capital and share premium account of the Group are as follows : -

	Share capital RM'000	Share premium RM'000	Unappropriated Profit RM'000	Total RM'000
As at 30 June 2005	2,250	-	996	3,246
Proforma 1: Bonus Issue II	585	-	(585)	-
Proforma 2 : Public Issue	945	6,142	-	7,087
Proforma 3 : Full exercise of the ESOS *	378	2,457	-	2,835
Less: Share issue expenses	-	(1,200)	-	(1,200)
	<b>4,158</b>	<b>7,399</b>	<b>411</b>	<b>11,968</b>

\* Assuming all the options are exercised at RM0.75 per Share.

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**9. FINANCIAL INFORMATION (Cont'd)**

**9.7 REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED  
BALANCE SHEETS AS AT 30 JUNE 2005  
(Prepared for inclusion in the Prospectus)**

Dated: 25 November 2005

The Board of Directors  
K-One Technology Berhad  
B-13-D1, Block B, Plaza Mont' Kiara  
2 Jalan Kiara, Mont' Kiara  
50480 Kuala Lumpur

Dear Sirs,

**T H LAW & CO**

Audit Firm No : 0942

- Chartered Accountants
- Affiliated with HASNAN LAW & SAM
- A Member Firm of The Malaysian Institute of Accountants

1st Floor,  
No. 10A, Lorong Universiti B,  
Section 16, 46350 Petaling Jaya  
Selangor Darul Ehsan, Malaysia  
Tel: +603-79565333  
Fax: +603-79586833  
E-mail: thlawco@tm.net.my

**K-ONE TECHNOLOGY BERHAD ("K-ONE TECH" OR "COMPANY")  
REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA  
CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2005.**

We have reviewed the Proforma Consolidated Balance Sheets of K-One Tech and its subsidiaries ("K-One Group") as at 30 June 2005 together with the notes thereon, for which the Directors of K-One Tech are solely responsible, prepared for the inclusion in the Prospectus in connection with the Public Issue of 9,450,000 new ordinary shares of RM 0.10 each in K-One Tech at an issue price of RM 0.75 per ordinary share and the listing of and quotation for its entire issued and paid-up share capital on the MESDAQ Market of Bursa Malaysia Securities Berhad.

In our opinion,

- the Proforma Consolidated Balance Sheets has been properly compiled on the basis stated;
- such basis is consistent with the accounting policies to be adopted and disclosed by the K-One Group;
- the adjustments are appropriate for the purposes of the Proforma Consolidated Balance Sheets.

Yours faithfully,



T H LAW & CO.  
Firm No. AF - 0942  
Chartered Accountants



LAW TIAM HOCK  
Chartered Accountant  
Approval No. 1609/12/05 (J)

**10. ACCOUNTANTS' REPORT**

*(Prepared for inclusion in the Prospectus)*

**T H LAW & CO**

Audit Firm No : 0942

- Chartered Accountants
- Affiliated with HASNAN LAW & SAM
- A Member Firm of The Malaysian Institute of Accountants

Dated: 25 November 2005

The Board of Directors  
K-One Technology Berhad  
B-13-D1 Block B Plaza Mont' Kiara  
2 Jalan Kiara, Mont' Kiara  
50480 Kuala Lumpur

1st Floor,  
No. 10A, Lorong Universiti B,  
Section 16, 46350 Petaling Jaya  
Selangor Darul Ehsan, Malaysia  
Tel: +603-79565333  
Fax: +603-79586833  
E-mail: thlawco@tm.net.my

Dear Sirs,

**K-ONE TECHNOLOGY BERHAD ("K-ONE TECH" OR "COMPANY")  
ACCOUNTANTS' REPORT**

**1. INTRODUCTION**

This report has been prepared by T H Law & Co., an approved company auditor, for inclusion in the Prospectus of K-One Tech to be dated 1 December 2005 in connection with the Public Issue of 9,450,000 new ordinary shares of RM 0.10 each in K-One Tech at an issue price of RM 0.75 per share and the listing of and quotation for the entire enlarged issued and paid-up share capital of K-One Tech comprising 37,800,000 ordinary shares of RM 0.10 each on the MESDAQ Market of Bursa Malaysia Securities Berhad ("Bursa Securities").

**2. DETAILS OF K-ONE TECH AND ITS SUBSIDIARIES ("K-ONE GROUP")**

**2.1 The Company**

K-One Tech was incorporated on 20 February 2001 as K-One Technology Sdn. Bhd., in Malaysia under the Companies Act, 1965 as a private limited company. The Company was converted into a public company on 29 October 2003. The Company is principally engaged in research, design and development of electronic end-products and sub-systems.

**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.****2.2 LISTING PROPOSALS**

K-One Tech proposes to seek listing on the MESDAQ Market through the implementation of the Listing Proposals as set out below.

**(i) Bonus Issue I**

Bonus Issue of 598,000 new ordinary shares of RM 1.00 each ("**Bonus Shares I**") to its existing shareholders on the basis of approximately 162 Bonus Shares for every 100 existing ordinary shares of RM 1.00 held in K-One Tech.

**(ii) Rights Issue**

Subsequent to the Bonus Issue I, K-One Tech has undertaken a renounceable rights issue of 1,282,000 new ordinary shares of RM 1.00 each ("**Rights Shares**") on the basis of approximately 132 new Rights Shares for every 100 K-One Tech existing ordinary shares of RM 1.00 held.

**(iii) Subscription of Shares in EMB Technology Sdn. Bhd. ("Subscription")**

Pursuant to the Subscription Agreement dated 1 December 2003, K-One Tech subscribed for 499,998 new ordinary shares of RM1.00 each in EMB Technology Sdn. Bhd. ("EMB Tech") for RM499,998 cash. Simultaneously, K-One Tech acquired two (2) ordinary shares of RM1.00 each in EMB Tech from the existing shareholders of EMB Tech for purchase consideration of RM2.00. With the completion of the foregoing Subscription and acquisition, EMB Tech became a wholly-owned subsidiary company of K-One Tech.

Subsequent to the foregoing Subscription and acquisition and pursuant to a Share Sale Agreement dated 1 December 2003 between Bjorn Braten, Ir. Lim Beng Fook, Edwin and Lim Soon Seng, Martin and EMB Tech, K-One Industry Sdn. Bhd. ("K-One Ind") became the wholly owned subsidiary of EMB Tech.

**(iv) Share Split**

Following the Bonus Issue I, Rights Issue and Subscription, K-One Tech has undertaken a share split exercise wherein the existing par value of RM 1.00 per ordinary share was subdivided into 10 ordinary shares of RM 0.10 each. Consequently, the number of issued and paid-up share capital of K-One Tech has increased from 2,250,000 ordinary shares of RM 1.00 each to 22,500,000 ordinary shares of RM 0.10 each ("**Share**").

2.2 LISTING PROPOSALS (CONT'D)

(v) **Bonus Issue II**

Following the Bonus Issue I, Rights Issue, Subscription and Share Split, K-One Tech has undertaken an additional Bonus Issue of 5,850,000 new Shares ("**Bonus Share II**") to its existing shareholders on the basis of approximately 26 new Shares for every 100 existing Shares held in K-One Tech.

(vi) **Public Issue**

K-One Tech proposes to undertake a Public Issue of approximately 25% of the Company's enlarged share capital upon listing.

The Shares will be offered to the Malaysian public, eligible Directors, employee, and business associates of the Group and private placement investors.

The Public Issue is 9,450,000 new Shares at an issue price of RM 0.75 per Share. Upon completion of the Public Issue, the issued and paid-up share capital of K-One Tech will be increased from RM 2,835,000 comprising 28,350,000 Shares to RM 3,780,000 comprising 37,800,000 Shares.

The Public Issue Shares rank pari passu in all respects with the existing issued Shares of the Company, including voting rights and rights to all dividends and distributions that may be declared, paid or made subsequent to the date of allotment thereof.

(vii) **Listing and Quotation**

Upon completion of the abovementioned proposals, K-One Tech will seek the listing of and quotation for its entire enlarged issued and paid-up share capital of 37,800,000 Shares on the MESDAQ Market.

(viii) **Employee Share Option Scheme ("ESOS")**

The Company had on 24 January 2005 obtained the approval of the Bursa Securities to establish an ESOS for the executive directors and eligible employees of the Group. The quantum of the ESOS will be 10% of the enlarged share capital of the Company at any point in time within the duration of the ESOS. The ESOS shall be in force for a duration of 5 years.

**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.****2.3 DETAILS OF THE PROFORMA SUBSIDIARIES**

A summary of the details of the subsidiaries of K-One Tech, all of which are incorporated in Malaysia, as at the date of this report, is as follows:-

Name of subsidiary company	Date of incorporation	Issued and fully paid-up share capital	Equity interest (%)	Principal activities
a) <u>Direct subsidiary</u> EMB Tech	1 December 2003	RM 500,000	100	Investment holding. Currently dormant
b) <u>Sub-subsidiary</u> K-One Ind	27 July 2001	RM 500,000	100	Manufacturing of electronic end-products and sub-systems

The K-One Group's business can be segregated into two distinctly different but yet complementary activities i.e. Design and development ("D&D") on the one hand and manufacturing on the other of multimedia and automotive products/sub-systems.

**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.****3. FINANCIAL STATEMENTS AND AUDITORS**

This report sets out information provided to us by the management of the K-One Group in response to specific questions to the management and from financial information extracted from audited financial statements of the K-One Group for the periods/years ended 31 December 2001 to 31 December 2004 and 6 months ended 30 June 2005. The financial statements of the K-One Group are prepared under the historical cost convention, unless otherwise indicated, and in accordance with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965. The information contained in this report and the scope of work conducted in the preparation of this report does not constitute an audit.

The Auditors' Reports of K-One Tech, K-One Ind and EMB Tech, for the financial periods/years under review, were reported on without any qualification.

**4. SHARE CAPITAL****4.1 Authorised Share Capital**

The Company's present authorised share capital comprises 100,000,000 ordinary shares of RM 0.10 each. The changes in the authorised share capital of the Company since its incorporation is as follows:-

## Ordinary Shares:-

<u>Date of creation</u>	No. of shares of RM 1.00 each <u>created</u>	No. of shares of RM 0.10 each <u>created</u>	Cumulative authorised <u>ordinary shares</u>
20.02.2001	100,000	-	RM 100,000
29.07.2002	400,000	-	RM 500,000
11.04.2005	9,500,000	-	RM 10,000,000
30.05.2005	-	100,000,000*	RM 10,000,000

\* The ordinary share capital was sub-divided from RM1.00 to RM0.10 each.

**4.2 Issued and Fully Paid-Up Share Capital**

At the date of incorporation, the Company's issued and fully paid-up share capital was RM 3 comprising 3 ordinary subscribers' shares of RM 1.00 each. The current issued and fully paid-up share capital comprises 28,350,000 ordinary shares of RM 0.10 each.



**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.****4.2 Issued and Fully Paid-Up Share Capital (Cont'd)**

Ordinary Shares:-

<u>Date of allotment</u>	<u>No. of shares of RM 1.00 each</u>	<u>No. of shares of RM 0.10 each</u>	<u>Consideration</u>	<u>Cumulative issued and paid-up shares</u>
20.02.2001	3	-	Cash	3
28.12.2001	99,997	-	Cash	100,000
29.07.2002	270,000	-	Cash	370,000
11.04.2005	598,000	-	Bonus Issue I	968,000
24.05.2005	1,282,000	-	Rights Issue	2,250,000
30.05.2005	-	22,500,000	Share Split	22,500,000
10.10.2005	-	5,850,000	Bonus Issue II	28,350,000
To be issued pursuant to the listing of K-One Tech	-	9,450,000	Public Issue	37,800,000

Upon completion of the Bonus Issue I, Rights Issue, Subscription, Share Split and Bonus Issue II as detailed in paragraph 2.2, the issued and fully paid-up share capital of K-One Tech will be RM 3,780,000 comprising 37,800,000 Shares.

**5. RELEVANT FINANCIAL PERIOD**

The relevant financial period for the purpose of this report ("Relevant Financial Period") is as follows: -

<u>Company</u>	<u>Relevant Financial Period</u>
K-One Tech	Financial period from 20 February 2001 (date of incorporation) to 31 December 2001, financial years ended 31 December 2002, 31 December 2003, 31 December 2004 and 6 months period ended 30 June 2005.
EMB Tech	Financial period from 1 December 2003 (date of incorporation) to 31 December 2004 and 6 months period ended 30 June 2005.
K-One Ind	Financial period from 27 July 2001 (date of incorporation) to 31 December 2002, financial years ended 31 December 2003, 31 December 2004 and 6 months period ended 30 June 2005.

**6. DIVIDENDS**

K-One Tech and its subsidiary companies have not declared or paid any dividends in respect of the relevant financial periods/years under review.

**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.**

## 7. SUMMARISED RESULTS

## 7.1 PROFORMA/AUDITED CONSOLIDATED INCOME STATEMENTS

The proforma consolidated income statements of the K-One Tech Group throughout the periods under review for the financial period/years ended 31 December 2001, 31 December 2002, 31 December 2003 and 31 December 2004 and 6 months period ended 30 June 2005 which are prepared based on the assumption that the Group has been in existence throughout the period under review, are set out below:-

	Period from 20.02.2001 to 31.12.2001 RM '000	Year ended 31.12.2002 RM '000	Year ended 31.12.2003 RM '000	Year ended 31.12.2004 RM '000	Period from 01.01.2005 to 30.06.2005* RM '000
Revenue	4,609	16,126	15,093 <sup>@</sup>	15,343	20,924
Gross profit	825	1,660	3,233 <sup>@</sup>	4,109	2,537
Profit before charging depreciation and interest expenses	367	514	1,239 <sup>@</sup>	1,352	1,292
Less:					
Depreciation	(92)	(139)	(157)	(214)	(129)
Interest expenses	(2)	(11)	(8)	(22)	(20)
Profit before taxation	273	364	1,074 <sup>@</sup>	1,116	1,143
Taxation	(97)	(151)	37	(41)	-
Profit after taxation	176	213	1,111 <sup>@</sup>	1,075	1,143
Number of ordinary shares of RM 0.10 each assumed in issue ('000)*	28,350	28,350	28,350	28,350	28,350
Gross earning per share (sen)	1.28 <sup>#</sup>	1.28	3.79 <sup>@</sup>	3.94	8.06 <sup>#</sup>
Net earning per share (sen)	0.83 <sup>#</sup>	0.75	3.92 <sup>@</sup>	3.79	8.06 <sup>#</sup>

\* - Number of shares in issue before taking into account the shares issued pursuant to Public Issue.

<sup>#</sup> - Annualised - 2001 - based on 9 months operations  
- 2005 - based on 6 months operations

<sup>@</sup> - Audited balance after incorporating prior year adjustment

<sup>\*</sup> - The financial information for the 6-month period ended 30.06.2005 as disclosed above is prepared on proforma basis as the K-One Group was formalised on 27.05.2005. In view thereof and for illustrative purposes, the actual audited consolidated results of the K-One Group for the period from 27.05.2005 to 30.06.2005 was not presented.

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**10. ACCOUNTANTS' REPORT (Cont'd)**

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**T H LAW & CO.**

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7.1.1 Commentary On Results

- The proforma consolidated income statements for the relevant financial periods have been prepared based on applicable approved accounting standards in Malaysia and accounting policies consistent with those adopted in the preparation of the audited financial statements of the K-One Group.
- The results for financial year 2003 have been restated to take into account of the prior year adjustment.
- There were no extraordinary or exceptional items during the relevant financial periods/years under review.
- The proforma gross EPS is computed by dividing the profit before taxation by the number of shares in issue before taking into account the shares issued pursuant to Public Issue.
- The proforma net EPS is computed by dividing the profit after taxation by the number of shares in issue before taking into account the shares issued pursuant to Public Issue.
- All significant intra-groups transactions are eliminated on consolidation and the consolidated results reflect external transactions only.

**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.***Revenue***2001**

Revenue for the Group for the financial period 2001 which consists of nine months operations amounted to RM4.6 million with RM3.0 million attributed to D&D and the balance to manufacturing of electronics end-products and sub-systems. The entire Group's revenue is derived from the overseas markets, particularly, Europe.

**2002**

The Group's revenue increased by 250% from RM4.6 million for the financial period 2001 to RM16.1 million for the financial year 2002. The increase is attributed to three major reasons:-

- (a) Commencement and continuation of manufacturing activities for products designed in 2001.
- (b) Signing up and streaming of new customers in 2002.
- (c) Commencement of new projects from existing customers.

**2003**

The Group's revenue for financial year 2003 amounted to RM15.1 million. This represents a slight decrease compared to RM16.1 million for the financial year 2002. The decrease in the Group's revenue is due to the decrease in manufacturing revenue from RM14.0 million for the financial year 2002 to RM10.9 million for the financial year 2003. However, revenue derived from D&D increased from RM2.2 million for the financial year 2002 to RM4.3 million for the financial year 2003.

The above decrease in manufacturing revenue is caused by the adverse effects of the Iraq war and SARS which happened in the first half of year 2003. These unforeseen circumstances depressed revenue growth with customers cutting back on existing production and delaying production line audits for new product launches in anticipation of reduced demand and a weak economy. To mitigate slowing manufacturing demand, the Group managed to innovate and re-design several products for existing and new customers in the same year, hence contributing to the increased in D&D revenue.

**2004**

For financial year 2004, the Group's revenue marginally increased to RM 15.3 million from RM 15.1 million in 2003. The Group's revenue increase was curtailed by its lack of financial capability to purchase/upgrade certain development and testing equipment including Bluetooth equipment which resulted in the Group failing to secure Bluetooth projects from major customers as D&D activities for such projects required Bluetooth development and test equipments.

**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.****2005**

For the 6 months period ended 30 June 2005, the Group posted revenue of RM 20.9 million. This itself is 36.6% more than the revenue for financial year 2004 of RM 15.3 million. The revenue surge is attributed to the realisation of manufacturing activities in 2005 for certain development projects or products which were delayed in 2004 and the securing of new projects from new customers.

***PBT*****2001**

Profit margin before taxation stood at 5.9% as at 31 December 2001 which consists of nine months of operations. Being the first year of operations, much of the revenue are derived from D&D activities.

**2002**

Profit margin before taxation recorded a decrease from 5.9% in financial period 2001 to 2.3% in financial year 2002. The decrease in profit margin before taxation is attributed to two major reasons:-

- (i) Higher percentage of manufacturing activities which constitute a lower gross profit margin as compared to D&D activities, hence pulling down the overall gross profit margin.
- (ii) Operating expenses and finance costs are much higher as a result of hiring more technical staff, investment in ICT tools to enhance productivity and aid designing activities and last but not least more intense traveling overseas to secure projects.

**2003**

For the financial year 2003, the Group's profit margin before taxation stood at 7.1 % as compared to 2.3% in financial year 2002.

Improvement in gross profit margin can be attributed to the following 3 reasons:-

- (i) Effective cost cutting activities through negotiation with long term suppliers of major components.
- (ii) Improvement in efficiency and turnaround time.
- (iii) Overall improvement in margin for new business.

**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.****2004**

For the financial year 2004, the Group's profit margin before taxation stood at 7.3%, improving from 7.1 % registered in financial year 2003. Efforts from previous year's cost cutting measures continued to pay-off which resulted in higher gross profit margin derived from its manufacturing activities. Meanwhile, D&D gross profit margin marginally increased in 2004.

**2005**

For the 6 months ended 30 June 2005, the Group's profit margin before taxation decreased to 5.5% as compared to 7.3% for financial year 2004. The decrease in profit before tax is mainly attributed to the lower profit margin generated from the new project.

***Taxation***

The effective tax rate for financial period 2001 and financial year 2002 are 35.5% and 41.5% respectively as compared to the statutory rate of 28%. This is because certain expenses such as the depreciation of motor vehicle and renovation, entertainment and staff bonus that is in excess of two months do not qualify for tax deduction purpose.

In financial year 2003, the Group's effective tax rate is (3.4%) as a result of exemption from corporate tax for K-One Tech which was accorded MSC Status on 11 September 2002 which confers tax exemption for an initial period of five years with the possibility of an extension for a further period of five years, subject to application to the relevant authorities and compliance with conditions of the MSC status. The corporate tax for K-One Ind is also exempted as a result of Pioneer Status granted by MITI on 31 October 2003.

The effective tax rate for financial year 2003 is negative due to the reversal of the deferred tax (which was recognized in the previous year) as the Group does not foresee any realisation of taxable temporary differences since the Group is exempted from tax upon granted MSC Status and Pioneer Status.

The effective tax rate for financial year 2004 of 3.7% is lower than the statutory tax rate as the Group is still under the tax exemption period, which is granted by MSC Status and Pioneer Status respectively. The tax expenses incurred during the year is in respect of under provision of taxation for the financial year 2003 due to the pre-pioneer status income generated by the Group.

No provision for taxation was required for the financial period 2005 as the Group is still within the tax exemption period granted by MITI.

**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.**

## 7.2 Income Statement of K-One Tech

The summarised results of K-One Tech based on its audited financial statements for the relevant financial statements for the relevant financial periods/years are set out below:-

	Period from 20.02.2001 to <u>31.12.2001</u> RM '000	Year ended <u>31.12.2002</u> RM '000	Year ended <u>31.12.2003</u> RM '000	Year ended <u>31.12.2004</u> RM '000	Period from 01.01.2005 to <u>30.06.2005</u> RM '000
Revenue	4,609	16,126	4,943	3,268	2,204
Cost of sales	(3,784)	(14,687)	(3,500) <sup>@</sup>	(2,076)	(1,423)
Gross profit	825	1,439	1,443 <sup>@</sup>	1,192	781
Other income	-	-	105	161	59
Administrative and other operating expenses	(548)	(1,078)	(778)	(1,319)	(433)
Profit from operating activities	277	361	770 <sup>@</sup>	34	407
Finance cost	(2)	(11)	(8)	(6)	(2)
Profit before taxation	275	350	762 <sup>@</sup>	28	405
Taxation	(97)	(145)	31	(22)	-
Profit for the period/year	<u>178</u>	<u>205</u>	<u>793<sup>@</sup></u>	<u>6</u>	<u>405</u>
Number of ordinary shares of RM 1.00 each ('000)*	100	212.5	370	370	15,165
Gross EPS (sen)*	<u>367<sup>#</sup></u>	<u>165</u>	<u>206<sup>@</sup></u>	<u>8</u>	<u>5<sup>#</sup></u>
Net EPS (sen)*	<u>237<sup>#</sup></u>	<u>96</u>	<u>214<sup>@</sup></u>	<u>2</u>	<u>5<sup>#</sup></u>

\* Based on the weighted average number of ordinary shares in issue during the financial period/years under review.

# - Annualised - 2001 - based on 9 months operations  
- 2005 - based on 6 months operations

@ - Audited balance after incorporating prior year adjustment.

K-One Tech commenced commercial operations on 6 April 2001.

Revenue of the Company comprises of income derived from D & D of Multimedia and automotive products/sub-systems. This involves K-One Tech harnessing its human intellectual capital to conceptualise, design and develop high-end electronic products for its clients whom are mainly based in Europe and US.

**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.**

## 7.3 Income Statement of EMB Tech

The summarised results of EMB Tech based on its audited financial statements for the relevant financial period are set out below:-

	Period from 01.12.2003 to <u>31.12.2004</u> RM '000	Period from 01.01.2005 to <u>30.06.05</u> RM '000
Revenue	-	-
Cost of sales	-	-
Gross profit	-	-
Other income	-	-
Administrative and other operating expenses	(5)	(3)
Loss from operating activities	(5)	(3)
Finance cost	-	-
Loss before taxation	(5)	(3)
Taxation	-	-
Loss for the period	(5)	(3)
Number of ordinary shares	2	500,000
Gross loss per share (sen)	(2,307) #	(1) #
Net loss per share (sen)	(2,307) #	(1) #

# - Annualised - 2004 - based on 13 months operations  
2005 – based on 6 months operations

The principal activities of EMB Tech is that of investment holding. It has not commenced business operation since the date of incorporation.



**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.****7.4 Income Statement of K-One Ind**

The summarised results of K-One Ind based on its audited financial statements for the relevant financial period/years are set out below:-

	Period from 27.07.2001 to <u>31.12.2002</u> RM '000	Year ended <u>31.12.2003</u> RM '000	Year ended <u>31.12.2004</u> RM '000	Period from 01.01.05 to <u>30.06.05</u> RM '000
Revenue	1,753	10,850 <sup>@</sup>	12,075	18,720
Cost of sales	(1,532)	(9,060)	(9,158)	(16,964)
Gross profit	221	1,790 <sup>@</sup>	2,917	1,756
Administrative and other operating expenses	(210)	(1,478)	(1,807)	(997)
Profit from operating activities	11	312 <sup>@</sup>	1,110	759
Finance cost	-	-	(17)	(18)
Profit before taxation	11	312 <sup>@</sup>	1,093	741
Taxation	(6)	6	(19)	-
Profit for the period/year	5	318 <sup>@</sup>	1,074	741
Number of ordinary shares ('000)*	87.5	400	500	500
Gross EPS (sen)*	38 <sup>#</sup>	78 <sup>@</sup>	219	296 <sup>#</sup>
Net EPS (sen)*	17 <sup>#</sup>	80 <sup>@</sup>	215	296 <sup>#</sup>

\* Based on the weighted average number of ordinary shares in issue during the financial period/years under review.

# - Annualised - 2002 - based on 4 months operations  
2005 - based on 6 months operations

@ - Audited balances after incorporating prior year adjustment.

K-One Ind commenced its operations on 1 September 2002.

Revenue of the Company comprises of income derived from manufacturing of multimedia and automotive products/sub-systems for supply to customers located mainly in Europe and US.

**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.**

## 8. SUMMARISED BALANCE SHEETS

## 8.1 AUDITED CONSOLIDATED BALANCE SHEETS

The audited consolidated balance sheet as at 30 June 2005 is prepared based on the latest audited report as at 30 June 2005. The audited consolidation Balance Sheets as at 30 June 2005 are set out below:-

	Audited Balance Sheet as at <u>30.06.2005</u> RM '000
Property, plant and equipment	734
Current assets	
Inventories	3,375
Trade receivables	6,419
Other receivables	396
Tax in credit	17
Cash at bank	2,007
	<u>12,214</u>
Current liabilities	
Trade payables	5,185
Other payables	320
Amount due to a Director	973
Borrowing	945
Tax payable	-
	<u>7,423</u>
Net current assets	<u>4,791</u>
	<u>5,525</u>
Financed by:-	
Share capital	2,250
Unappropriated profit	996
Shareholders' equity	<u>3,246</u>
Negative goodwill on consolidation	2,124
Long term liabilities	
Borrowing	155
Deferred tax liability	-
	<u>5,525</u>
Number of ordinary shares of RM 0.10 each in issue ('000)	<u>22,500</u>
Net tangible assets ("NTA") per ordinary share (sen)	<u>24</u>

**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.**

## 8. SUMMARISED BALANCE SHEETS (CONT'D)

8.2 The summarised balance sheets of each of the companies within the K-One Group based on the audited financial statements for the past financial periods/years are as follows:-

## 8.2.1 K-One Tech

	← BALANCE SHEET AS AT →				
	<u>31.12.2001</u>	<u>31.12.2002</u>	<u>31.12.2003</u>	<u>31.12.2004</u>	<u>30.06.2005</u>
	RM '000	RM '000	RM '000	RM '000	RM '000
Property, plant and equipment	268	207	218	196	225
Investment in subsidiary companies	-	-	-	-	500
Current assets					
Inventories	-	657	-	452	594
Trade receivables	503	3,223	1,030	534	741
Other receivables	1,026	481	898	447	276
Amount due from subsidiary companies	-	-	-	-	899
Amount due from directors	1	147	-	-	-
Tax in credit	-	-	32	17	17
Cash at bank	38	346	474	826	1,305
	<u>1,568</u>	<u>4,854</u>	<u>2,434</u>	<u>2,276</u>	<u>3,832</u>
Current liabilities					
Trade payables	1,320	4,009	807 <sup>@</sup>	604	788
Other payables	10	35	77	118	90
Amount due to a director	-	-	138	138	438
Hire purchase creditor	22	25	27	32	-
Tax payable	87	140	-	-	-
	<u>1,439</u>	<u>4,209</u>	<u>1,049<sup>@</sup></u>	<u>892</u>	<u>1,316</u>
Net current assets	<u>129</u>	<u>645</u>	<u>1,385<sup>@</sup></u>	<u>1,384</u>	<u>2,516</u>
	<u>397</u>	<u>852</u>	<u>1,603<sup>@</sup></u>	<u>1,580</u>	<u>3,241</u>

**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.**

## 8.2.1 K-One Tech (Cont'd)

	← BALANCE SHEET AS AT →				
	<u>31.12.2001</u> RM '000	<u>31.12.2002</u> RM '000	<u>31.12.2003</u> RM '000	<u>31.12.2004</u> RM '000	<u>30.06.2005</u> RM '000
Financed by:-					
Share capital	100	370	370	370	2,250
Unappropriated profit	178	383	1,177 <sup>@</sup>	1,183	991
	<u>278</u>	<u>753</u>	<u>1,547<sup>@</sup></u>	<u>1,553</u>	<u>3,241</u>
Long term liabilities					
Hire purchase creditor	109	84	56	27	-
Deferred tax liability	10	15	-	-	-
	<u>397</u>	<u>852</u>	<u>1,603<sup>@</sup></u>	<u>1,580</u>	<u>3,241</u>
Number of ordinary shares of RM 1.00 each in issue ('000)					
	<u>100</u>	<u>370</u>	<u>370</u>	<u>370</u>	<u>-</u>
Number of ordinary shares of RM 0.10 each in issue ('000)					
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,500</u>
NTA per ordinary share (sen)					
	<u>278</u>	<u>204</u>	<u>418<sup>@</sup></u>	<u>420</u>	<u>14</u>

<sup>@</sup> - Audited balance after incorporating prior year adjustment.

**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.**

## 8.2.2 EMB Tech

	BALANCE SHEET	
	← AS AT →	
	<u>31.12.2004</u>	<u>30.06.2005</u>
	RM '000	RM '000
Investment in Subsidiary Company	-	500
Current asset		
Cash on hand	*	500
Current liabilities		
Other payables	2	505
Amount due to a director	3	3
	<u>5</u>	<u>508</u>
Net current liabilities	<u>(5)</u>	<u>(8)</u>
	<u>(5)</u>	<u>492</u>
Financed by:-		
Share capital	*	500
Accumulated loss	(5)	(8)
	<u>(5)</u>	<u>492</u>
Number of ordinary shares of RM 1.00 each in issue	<u>2</u>	<u>500,000</u>
NTA per ordinary share (sen)	<u>-</u>	<u>98</u>

\* - RM 2

**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.**

## 8.2.3 K-One Ind

	←	BALANCE SHEET AS AT		→
	31.12.2002 RM '000	31.12.2003 RM '000	31.12.2004 RM '000	30.06.05 RM '000
Property, plant and equipment	190	239	530	509
Current assets				
Inventories	-	1,266	1,480	2,781
Trade receivables	1,753	4,111 <sup>@</sup>	2,309	5,679
Other receivables	21	59	102	120
Cash at bank	84	269	862	202
	<u>1,858</u>	<u>5,705<sup>@</sup></u>	<u>4,753</u>	<u>8,782</u>
Current liabilities				
Trade payables	1,325	4,196	1,693	4,397
Other payables	479	895	389	227
Amount due to ultimate holding Company	-	-	-	899
Amount due to a director	33	30	30	30
Borrowing	-	-	1,099	945
	<u>1,837</u>	<u>5,121</u>	<u>3,211</u>	<u>6,498</u>
Net current assets	<u>21</u>	<u>584<sup>@</sup></u>	<u>1,542</u>	<u>2,284</u>
	<u>211</u>	<u>823<sup>@</sup></u>	<u>2,072</u>	<u>2,793</u>
Financed by:-				
Share capital	200	500	500	500
Unappropriated profit	5	323 <sup>@</sup>	1,397	2,138
	<u>205</u>	<u>823<sup>@</sup></u>	<u>1,897</u>	<u>2,638</u>
Borrowing	-	-	175	155
Deferred tax liability	6	-	-	-
	<u>211</u>	<u>823<sup>@</sup></u>	<u>2,072</u>	<u>2,793</u>
Number of ordinary shares of RM 1.00 each in issue ('000)	<u>200</u>	<u>500</u>	<u>500</u>	<u>500</u>
NTA per ordinary share (sen)	<u>103</u>	<u>165<sup>@</sup></u>	<u>379</u>	<u>528</u>

<sup>@</sup> - Audited balance after incorporating prior year adjustment.

## 10. ACCOUNTANTS' REPORT (Cont'd)

T H LAW &amp; CO.

## 9. PROFORMA STATEMENTS OF ASSETS AND LIABILITIES OF THE K-ONE GROUP

K-ONE TECHNOLOGY BERHAD  
 Proforma Consolidated Balance Sheet  
 As at 30 June 2005

Notes	Group			
	Audited as at 30 June 2005 RM '000	Proforma I RM '000	Proforma II RM '000	Proforma III RM '000
	734	734	4,684	4,684
Property, plant and equipment	10.2			
Current assets				
Inventories	10.3	3,375	3,375	3,375
Trade receivables	10.4	6,419	6,419	6,419
Other receivables		396	396	396
Tax in credit		17	17	17
Cash at bank	10.5	2,007	2,007	6,779
		12,214	12,214	14,151
Current liabilities				
Trade payables		5,185	5,185	5,185
Other payables		320	320	320
Amount due to a Director	10.6	973	973	973
Borrowing	10.7	945	945	945
		7,423	7,423	7,423
Net current assets		4,791	4,791	6,728
		5,525	5,525	11,412
				14,247

## 9. PROFORMA STATEMENTS OF ASSETS AND LIABILITIES OF THE K-ONE GROUP (CONT'D)

K-ONE TECHNOLOGY BERHAD  
 Proforma Consolidated Balance Sheet  
 As at 30 June 2005

		← Audited as at 30 June 2005 RM '000	Group	→ Proforma I RM '000	→ Proforma II RM '000	→ Proforma III RM '000
Financed by:-	Notes					
Share capital	10.8	2,250		2,835	3,780	4,158
Share premium	10.8	-		-	4,942	7,399
		2,250		2,835	8,722	11,557
Unappropriated profit		996		411	411	411
		3,246		3,246	9,133	11,968
Negative goodwill on consolidation	10.9	2,124		2,124	2,124	2,124
Long term liabilities						
Borrowing	10.7	155		155	155	155
Deferred tax liability	10.10	-		-	-	-
		5,525		5,525	11,412	14,247
NTA per ordinary share (sen)		24		19	30	34



**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.****9. PROFORMA STATEMENTS OF ASSETS AND LIABILITIES OF THE K-ONE GROUP (CONT'D)**

The proforma statements of assets and liabilities of the K-One Group as at 30 June 2005 are prepared based on the audited financial statements of K-One Tech, EMB Tech and K-One Ind as at 30 June 2005.

The proforma Group's statements of assets and liabilities are provided for illustrative purposes only to show the effects of the following transactions as if they had been completed as at 30 June 2005:-

**Proforma I**

- After incorporating the effect of the Bonus Share II.

**Proforma II**

- After incorporating the effects of Proforma I and Public Issue in K-One Tech at an issue price of RM 0.75 per share.
- Share issue expenses paid out of the proceeds of the Public Issue amounted to RM 1,200,000 to be offset against the share premium account.
- The gross proceeds amounting to RM 8.369 million which comprises proceeds arising from the Rights Issues of RM 1.282 million which has been implemented on 24 May 2005 and Public Issues of RM 7.087 million is expected to be utilised as follows:-

<b>Utilisation</b>	<b>RM '000</b>
Upgrading of Design and Development Centre	1,500
Establishment of global sales offices	900
Expansion plans for manufacturing facilities	1,550
Working capital	3,219
Estimated share issue expenses	1,200
	<u>8,369</u>

**Proforma III**

- After incorporating the effects of Proforma II and assumes that the ESOS of 3,780,000 new Shares in K-One Tech is fully exercised at an exercise price equivalent to the Issue Price of RM 0.75 per share. ("ESOS")

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**10. ACCOUNTANTS' REPORT (Cont'd)**

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**T H LAW & CO.**

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10. NOTES TO THE PROFORMA STATEMENTS OF ASSETS AND LIABILITIES

10.1 Significant Accounting Policies

a) Accounting convention and standards

The financial statements have been prepared:-

- i) in accordance with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.
- ii) under the historical cost convention, unless otherwise indicated.

b) Basis of consolidation

The Group financial statements consolidate the audited financial statements of the parent company and all of its subsidiary companies, which have been prepared in accordance with the Group's accounting policies.

All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered.

The financial statements of the parent and its subsidiaries are all drawn up to the same reporting date.

Subsidiary companies are consolidated using the acquisition method of accounting from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The difference between the acquisition cost and the fair values of the subsidiary companies' net assets is reflected as goodwill on consolidation or negative goodwill on consolidation.

c) Negative goodwill on consolidation

Negative goodwill on consolidation represents the excess of the fair value of the subsidiary companies' net assets at the date of acquisition over the fair value of the purchase consideration of the subsidiary companies.

d) Subsidiary companies

A subsidiary company is a company in which the Group or Company has a long term equity interest of more than 50 percent where it exercises control by management participation through Board of Directors representation.

**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.****10.1 Significant Accounting Policies (Cont'd)****e) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight line basis to write off the cost of the assets over the estimated useful life of the assets concerned.

The principal annual rates of depreciation used are as follows:-

Air conditioner	15%
Electrical installation	15%
Equipment	15%
Furniture and fittings	15%
Office equipment	15%
Renovation	15%
Machinery	20%
Motor vehicle	20%
Testing equipment	20%
Computer and software	40%

Property, plant and equipment are written down to recoverable amount if, in the opinion of the Directors, it is permanently less than their carrying value. Recoverable amount is the higher of an asset net selling price and its value in use.

**f) Inventories**

Inventories comprise of electronic components, which are valued at the lower of cost and net realisable value on the first-in, first-out method.

Net realisable value represents the estimated selling price less all estimated costs to completion and selling expenses.

**g) Receivables**

Receivables are carried at anticipated realisable value. Bad debts are written off in the financial year in which they are identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

**h) Cash and cash equivalents**

Cash comprises of cash at bank and cash on hand. Cash equivalents comprise of investments maturing within three months from the date of acquisition and which are readily convertible to known amount of cash which are subject to an insignificant risk of change in value.

**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.**

## 10.1 Significant Accounting Policies (Cont'd)

i) Payables

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

j) Finance lease and hire purchase arrangements

Assets held under finance leases and hire purchase contracts are assets where substantially all the risks and rewards of ownership of the assets have been passed to the Company. They are capitalised and depreciated over their estimated useful lives according to the rates as set out in Note 10.1(e). Finance charges of the lease rental obligations and hire purchase installments are charged to the income statement over the period of the respective agreements using the "Sum-of-Digits" method to give a constant periodical rate of interest on the remaining finance lease and hire purchase liabilities.

k) Impairment of assets

The carrying values of assets (other than deferred tax assets and financial assets) are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of an asset's net selling price and its value in use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets, or if it is not possible, for the cash-generating unit.

An impairment loss is charged to the income statement immediately, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of previously recognised revaluation surplus for the same asset.

Subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately, unless the asset is carried at revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.**

## 10.1 Significant Accounting Policies (Cont'd)

l) Revenue recognition

Revenue from sales of goods are recognised upon delivery of products and customer acceptance, if any, or performance of services, net of returns and discounts.

m) Taxation

Income tax on the profit or loss for the financial year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the financial year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided in the financial statements, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax credits and losses. Deferred tax assets are recognised to the extent that it is probable the taxable profit will be available against the temporary differences and unused tax credits and losses.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted at the balance sheet date.

n) Employee benefits

## i) Short Term Benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the financial year in which the associated services are rendered by employees of the Company. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

## ii) Defined Contribution Plan

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund. These contributions are recognised as an expense in the income statement as incurred.

**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.**

## 10.1 Significant Accounting Policies (Cont'd)

o) Foreign currency transactions

Transactions in foreign currencies are recorded in Ringgit Malaysia at rates of exchange ruling at the time of the transaction. Foreign currency monetary assets and liabilities are translated at exchange rates ruling at balance sheet date.

Gains and losses from conversion of short term assets and liabilities, whether realised or unrealised are included in operating profit as they arise.

All foreign exchange differences are taken to the income statement in the financial year in which they arise.

The principal closing rates used are as follows:-

	<u>31.12.01</u>	<u>31.12.02</u>	<u>31.12.03</u>	<u>31.12.04</u>	<u>30.06.05</u>
	RM	RM	RM	RM	RM
1 US Dollar	3.800	3.765	3.765	3.800	3.800
1 EURO	-	-	-	5.100	4.529

p) Related parties

Related parties are entities with common directors/shareholders wherein one party has the ability to control or exercise significant influence over the other parties in financial or operating policy decision.

q) Borrowing costs

All interests and other costs incurred in connection with borrowings are expensed as incurred.

r) Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, receivables, payables and borrowing. The particular recognition methods adopted are disclosed in the individual accounting policy statements associated with each item.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.**

## 10.2 Property, Plant and Equipment

<u>Group</u> 30.06.05	← COST →				<u>At</u> 30.06.05 RM '000
	<u>At</u> 01.01.05 RM '000	<u>From</u> <u>Subsidiary</u>	<u>Additions</u> RM '000	<u>Disposals</u> RM '000	
Air conditioner	21	155	-	-	176
Electrical installation	-	42	-	-	42
Equipment	-	44	-	-	44
Furniture and fittings	37	25	1	-	63
Office equipment	18	-	1	-	19
Renovation	33	107	91	-	231
Machinery	28	77	-	-	105
Motor vehicle	169	240	-	(169)	240
Testing equipment	28	-	2	-	30
Computer and software	284	68	19	-	371
	618	758	114	(169)	1,321

<u>Group</u> 30.06.05	← ACCUMULATED DEPRECIATION →				<u>At</u> 30.06.05 RM '000
	<u>At</u> 01.01.05 RM '000	<u>From</u> <u>Subsidiary</u>	<u>Depreciation</u> <u>charge for</u> <u>the period</u> RM '000	<u>Disposals</u> RM '000	
Air conditioner	13	76	4	-	92
Electrical installation	-	12	1	-	13
Equipment	-	11	1	-	12
Furniture and fittings	12	7	3	-	22
Office equipment	6	-	1	-	7
Renovation	20	36	8	-	64
Machinery	12	34	4	-	50
Motor vehicle	135	24	12	(144)	28
Testing equipment	7	-	3	-	10
Computer and software	217	38	34	-	289
	422	238	71	(144)	587

**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.**

## 10.2 Property, plant and equipment (Cont'd)

<u>Group</u>	◀ NET BOOK → VALUE At <u>30.06.05</u> RM '000
Air conditioner	84
Electrical installation	29
Equipment	32
Furniture and fittings	41
Office equipment	12
Renovation	167
Machinery	55
Motor vehicle	212
Testing equipment	20
Computer and software	82
	<u>734</u>

Details of asset under hire purchase:-

	<u>Group</u> <u>30.06.05</u> RM '000
Motor vehicle	
- cost	240
- net book value	<u>212</u>



**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.**

## 10.3 Inventories

	Group 30.06.05 RM '000
Electronic components	2,781
Tooling and moulds	594
	<u>3,375</u>

All inventories are carried at cost.

## 10.4 Trade Receivables

	Group 30.06.05 RM '000
Trade receivables	7,146
Less: Allowance for doubtful debts	(727)
	<u>6,419</u>

## 10.5 Cash and Cash Equivalents

Cash and cash equivalents comprise the following balance sheet item:-

	← Group →		
	Proforma I	Proforma II	Proforma III
	<u>30.06.05</u>	<u>30.06.05</u>	<u>30.06.05</u>
	RM '000	RM '000	RM '000
Cash at bank	<u>2,007</u>	<u>3,944</u>	<u>6,779</u>

## 10.6 Amount Due to a Director

Amount due to a Director bears no interest, unsecured and no scheme of repayment has been arranged.

**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.**

## 10.7 Borrowing

	Group 30.06.05 RM '000
<u>Current</u>	
<u>Unsecured</u>	
Banker acceptance	900
<u>Secured</u>	
Hire purchase creditor	45
	<u>945</u>
<u>Non-current</u>	
<u>Secured</u>	
Hire purchase creditor	155
	<u>1,100</u>

The banker acceptance of RM 900,000 is secure by way of a joint and several guarantee by the Directors of the subsidiary company.

The interest rate is charged at 3.2% per annum in accordance to the money market conditions.

	Group 30.06.05 RM '000
<u>Repayment terms</u>	
Banker acceptance (excluding hire purchase) - not later than 1 year	<u>900</u>
<u>Hire purchase liabilities</u>	
Minimum instalment payments	
- not later than 1 year	59
- later than 1 year and not later than 5 years	173
	<u>231</u>
Future finance charges on hire purchase	(31)
Present value of hire purchase creditor	<u>200</u>
Present value of hire purchase creditor	
- not later than 1 year	45
- later than 1 year and not later than 5 years	155
	<u>200</u>

**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.**

## 10.8 Share Capital

## 10.8.1 Authorised Share Capital

	As at 1 January 2005	Increased in Authorised Share Capital	Shares after subdivision	Shares after subdivision and Public Issue
No. of ordinary shares of RM 1.00 each	500,000	10,000,000	-	-
No. of ordinary shares of RM 0.10 each	-	-	100,000,000	100,000,000

The authorised share capital was sub-divided into 100,000,000 share of RM 0.10 each.

## 10.8.2 Issued and Paid-up Share Capital

The movements in the issued and paid-up share capital of K-One Tech are as follows:-

	← Group/Company →	
	Number of Ordinary Shares (RM 1.00 each)	RM '000
As at 1 January 2005	370,000	370
Ordinary Shares issued pursuant to:		
- Bonus Issue I	598,000	598
- Rights Issue	1,282,000	1,282
As at 30 June 2005	<u>2,250,000</u>	<u>2,250</u>

The ordinary shares of RM 1.00 each was sub-divided into 22,500,000 shares of RM 0.10 each.

	← Group/Company →	
	Number of Ordinary Shares (RM 0.10 each)	RM '000
As at 30 June 2005	22,500,000	2,250
Bonus Issue II	5,850,000	585
Per Proforma I	<u>28,350,000</u>	<u>2,835</u>
Public Issue	9,450,000	945
Per Proforma II	<u>37,800,000</u>	<u>3,780</u>
ESOS Exercise	3,780,000	378
Per Proforma III	<u>41,580,000</u>	<u>4,158</u>

**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.**

## 10.8.3 Share Premium

	Group RM '000
At 30 June 2005/Proforma I	-
Arising from Public Issue	6,142
Estimated share issue expenses written off	<u>(1,200)</u>
Per Proforma II	4,942
Arising from ESOS Exercise	<u>2,457</u>
Per Proforma III	<u>7,399</u>

## 10.9 Negative Goodwill on Consolidation

The negative goodwill on consolidation arising from the acquisition is derived as follows:-

	Group <u>30.06.05</u> RM '000
Cost of investment	1,000
Less: NTA of EMB Tech	<u>492</u>
NTA of K-One Ind	<u>2,632</u>
	<u>3,124</u>
Negative goodwill on consolidation	<u>(2,124)</u>

## 10.10 Deferred Tax Liability

There is no deferred tax for the Company during the financial period from 1 January 2005 to 30 June 2005 as the Company was granted MSC status, which entitles it to tax exemption for five years with effect from 11 September 2002. It may be extended for a further period of five years subject to application to the relevant authorities and compliance with conditions of MSC status.

There is no deferred tax liability for the subsidiary company during the financial period from 1 January 2005 to 30 June 2005 due to the subsidiary company being granted Pioneer Status for a period of five years with effect from 1 August 2003.

**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.****11. NET TANGIBLE ASSETS ("NTA") PER ORDINARY SHARE**

The NTA of the K-One Group based on the Proforma Group's statement of assets and liabilities as at 30 June 2005 as set out in Note 9 is illustrated below:-

	NTA RM '000	Number of ordinary shares RM 0.10 each	NTA per share (sen)
At 30 June 2005	5,370	22,500,000	24
Bonus Issue II	-	5,850,000	-
Proforma I	5,370	28,350,000	19
Public Issue	7,087	9,450,000	-
Less: Estimated share issue expenses	(1,200)	-	-
Proforma II	11,257	37,800,000	30
ESOS Exercise	2,835	3,780,000	-
Proforma III	14,092	41,580,000	34

**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.****12. PROFORMA CONSOLIDATED CASH FLOW STATEMENT**

The proforma consolidated cash flow statement of the K-One Group set out below is based on the audited financial statements of K-One Tech, EMB Tech and K-One Ind for the financial period ended 30 June 2005. It is presented on the basis that the K-One Group had been in existence based on Proforma II throughout the Relevant Financial Period.

	<u>Note</u>	<u>Period ended</u> <u>30.06.2005</u> <u>RM '000</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation		411
Adjustment for:-		
Depreciation		71
Foreign Currency exchange loss -- unrealised		166
Interest expenses		5
Gain on disposal of property, plant and equipment		(55)
Operating profit before working capital changes		598
Increase in inventories		(1,070)
Decrease in receivables		(949)
Decrease in payables		798
Increase in amount due to Director		300
Cash generated from operations		(323)
Interest paid		(4)
<b>Net cash from operating activities</b>		<u>(327)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment in subsidiary companies		324
Proceed from disposal of property, plant and equipment		80
Purchase of property, plant and equipment	<b>A</b>	(4,064)
<b>Net cash used in investing activities</b>		<u>(3,660)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net repayment of short term borrowing		(5)
Proceeds from issue of shares		8,369
Payment of share issue expenses		(1,200)
Repayment of hire purchase creditor		(59)
<b>Net cash from financing activities</b>		<u>7,105</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		3,118
<b>CASH AND CASH EQUIVALENTS BROUGHT FORWARD</b>		826
<b>CASH AND CASH EQUIVALENTS CARRIED FORWARD</b>	<b>B</b>	<u><u>3,944</u></u>

**10. ACCOUNTANTS' REPORT (Cont'd)****T H LAW & CO.****12. PROFORMA CONSOLIDATED CASH FLOW STATEMENT (CONT'D)**

Notes to the Proforma Consolidated Cash Flow Statement

**A Property, Plant and Equipment**

During the financial period, the Group acquired property, plant and equipment with an aggregate cost of RM 4.064 million by means of cash payments.

**B Cash and cash equivalents are made up of:**

Cash and bank balances	RM '000
	<u>3,944</u>

**13. FINANCIAL INSTRUMENTS**Receivables

The Group's normal trade credit terms ranges from 30 to 90 days. The Group has no significant concentration of credit risk that may arise from exposure to a single debtor or to groups of debtors.

Payables

The normal trade credit term granted to the Group ranges from 60 to 90 days.

Interest rate risk

The Company is exposed to interest rate risk in respect of bank borrowings which will fluctuate as a result of changes in market interest rates.

The maturity date and the effective interest rate of instruments at financial year end are as follows:-

	<u>Group</u>	
	Maturity	Effective interest
<u>Bank borrowing</u>		
Banker acceptance	50-77 days	3.20%
Hire purchase	55 months	6.92%

Credit risk

The maximum credit risks associated with recognised financial assets are the carrying amounts shown in the balance sheet.

## 13. FINANCIAL INSTRUMENTS (CONT'D)

Fair values of financial instruments

The carrying amounts and estimated fair values of the financial instruments of the Group and the Company are as follows:-

	Group					
	Proforma I		Proforma II		Proforma III	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
<u>Financial assets</u>						
Trade and other receivables	6,594	6,594	6,594	6,594	6,594	6,594
Cash and bank balances	2,007	2,007	3,944	3,944	6,779	6,779
<u>Financial liabilities</u>						
Trade and other payables	5,505	5,505	5,505	5,505	5,505	5,505
Amount due to a Director	973	973	973	973	973	973
Borrowing	1,100	1,100	1,100	1,100	1,100	1,100



**10. ACCOUNTANTS' REPORT (Cont'd)**

**T H LAW & CO.**

**13. FINANCIAL INSTRUMENTS (CONT'D)**

Fair values of financial instruments (Cont'd)

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:-

a) Cash and bank balances

The carrying amount of cash and bank balances approximates fair value due to the relatively short-term maturity of these instruments.

b) Trade and other receivables and payables

The historical cost carrying amount of trade receivables and payables subject to normal trade credit terms approximates fair value.

The carrying amounts of other receivables and payables are reasonable estimates of fair value because of their short maturity.

c) Hire purchase creditor

The carrying amount of short-term hire purchase creditor approximated fair value because of the short period to maturity of those instruments. The fair value of long-term hire purchase creditor is estimated based on the current rates available for hire purchase creditor with similiar maturity profile.

d) Borrowing

The carrying amount of short term borrowing approximates to fair value due to the short period to maturity of those instruments. The fair value of borrowing is estimated using discounted cash flow based on current interest rate available to the Company.

**14. SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE SHEET DATE**

We are not aware of any significant subsequent events between the date of the last financial statement used in the preparation of this report and the date of this report which materially affect the content of this report.

**10. ACCOUNTANTS' REPORT (Cont'd)**

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**T H LAW & CO.**

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15. FINANCIAL STATEMENTS

No audited financial statement has been made up in respect of any period subsequent to 30 June 2005.

Yours faithfully,



T H LAW & CO.  
Firm No: AF - 0942  
Chartered Accountants



LAW TIAM HOCK  
Chartered Accountant  
Approved No: 1609/12/05(J)

**11. DIRECTORS' REPORT**

*(Prepared for inclusion in the Prospectus)*



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Website : www.k-one.com.my

**Deloitte**  
Technology Fast 500



Date : 25 November 2005

The Shareholders of  
**K-ONE TECHNOLOGY BERHAD ("K-One Tech " or "Company")**  
Ground Floor  
No. 8, Lorong Universiti B  
Section 16  
46350 Petaling Jaya  
Selangor Darul Ehsan

Dear Sir/Madam,

On behalf of the Board of Directors, I wish to report after due enquiry that between the period from 30 June 2005 (being the date to which the last audited accounts of the Company and its subsidiaries ("Group") has been made up) to date hereof (being a date not earlier than 14 days before the issuance of this Prospectus), that: -

- (a) the business of the Group has, in the opinion of the Directors, been satisfactorily maintained;
- (b) in the opinion of the Directors, no circumstances have arisen since the last audited accounts of the Group which have adversely affected the trading or the value of the assets of the Group;
- (c) the current assets of the Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) no contingent liabilities have arisen by reason of any guarantees or indemnities given by the Company or any of its subsidiary companies;
- (e) the Directors are not aware, since the last audited accounts of the Group, of any default or any known event that could give rise to a default situation in respect of payments of either interest and/or principal sums in relation to any borrowings; and
- (f) there have been no material changes in the published reserves or any unusual factors affecting the profits of the Group since the last audited accounts of the Group.

Yours sincerely  
For and on behalf of the Board of Directors  
**K-ONE TECHNOLOGY BERHAD**

**Ir. Lim Beng Fook, Edwin**  
Executive Chairman